

ORIGINAL

ANDY TOBIN'S PROPOSED AMENDMENT



0000171192

TIME/DATE PREPARED: June 24, 2016 at 9:14am

COMPANY: Arizona Corporation Commission Investigation into Potential Improvements to its Water Policies
AGENDA ITEM NO.: 6/21 Little Policy Statements

DOCKET NO.: W-00000C-16-0151

OPEN MEETING DATE: June 24, 2016

Amendment to "Discussion of Policy Recommendations for the Water and Wastewater Industries"

Page 12, Line 9

INSERT:

1. The acquisition serves the general public interest;
2. The acquiring utility meets the criteria of viability that will not be impaired by the acquisition; that it maintains the managerial, technical and financial capabilities to safely and adequately operate the acquired system, and is currently in compliance with all Arizona Department of Environmental Quality, Arizona Department of Water Resources, and Arizona Corporation Commission rules and orders; and will be able to meet other requisite regulatory requirements on a short and long-term basis;
3. The acquired system is classified as a Class D or E water utility; the acquired system is not viable; it is in violation of statutory or regulatory standards concerning the safety, adequacy, efficiency or reasonableness of service and facilities; and that it has failed to comply, within a reasonable period of time, with any order of the Arizona Department of Environmental Quality or the Commission.
4. Neither the acquiring nor the selling system is an affiliated interest of the other;
5. The rates charged by the acquiring system to the acquired customers will not increase unreasonably because of the acquisition

Page 12, Line 11, after "system"

INSERT:

"Under certain circumstances of extreme differences in rates, or of affordability concerns, consideration should be given to a phase-in of the rate difference over a reasonable period of time."

Page 12, Line 12 after "improvements,"

INSERT: "that are completed within a reasonable period of time,"

Page 12, Line 34

DELETE: "The Pennsylvania Model and Other Issues" (emphasis in original)

Arizona Corporation Commission

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INSERT: "Policy Regarding the Acquisition of Viable Systems"

Page 13, Lines 1-7, after "systems." DELETE the remaining text

INSERT:

We support the notion that the purchase of non-viable Class D and E water utilities should be encouraged through incentives, including those listed above. Given that only two such instances have occurred in the last 17 years (Decision Nos. 61307 and 63584), the Commission believes that an alternative approach may necessary to incentivize viable water systems to purchase non-viable systems. Therefore, we endorse the following statement of policy:

To encourage the consolidation of small water utilities, it is the policy of the Commission that acquisition premiums should be allowed for acquisitions of viable private water systems that have a demonstrated record of acquiring and improving the service provided to the customers of non-viable water systems. The allowance of additional rate of return basis points may be awarded based on sufficient supporting data submitted by the utility within its rate case filing.

Further, these acquisition premiums are subject to the following conditions:

1. The acquisition serves the general public interest;
2. The acquiring utility meets the criteria of viability that will not be impaired by the acquisition; that it maintains the managerial, technical and financial capabilities to safely and adequately operate the acquired system, and is currently in compliance with all Arizona Department of Environmental Quality, Arizona Department of Water Resources, and Arizona Corporation Commission rules and orders; and will be able to meet other requisite regulatory requirements on a short and long-term basis;
3. The acquired system is classified as a Class D or E water utility; the acquired system is not viable; it is in violation of statutory or regulatory standards concerning the safety, adequacy, efficiency or reasonableness of service and facilities; and that it has failed to comply, within a reasonable period of time, with any order of the Arizona Department of Environmental Quality or the Commission.
4. Neither the acquiring nor the selling system is an affiliated interest of the other;
5. The rates charged by the acquiring system to the acquired customers will not increase unreasonably because of the acquisition
6. The purchase price is fair and reasonable and conducted through arms' length negotiations;
7. If appropriate, the acquirer's rates may be applied to the acquired system,
8. The acquisition premium must be associated with improvements, which can be qualitative or quantitative or both (this provision ensures that only companies in need of improvements will be able eligible for acquisition premiums), and
9. The premium must be reviewed and approved in a rate case.

It is the policy of the Commission that the acquisition premium be determined in accordance with the following principles (in addition to those above):

1. The premium shall not exceed twenty percent of the original cost rate base at the time of the acquisition.
2. One or more of the following may be used to provide recovery of the acquisition premium:
 - a. A premium on the return on equity.
 - b. An acquisition adjustment (credit or debit adjustments to rate base for purchase price discounts or premiums, respectively, may be used).
 - c. A deferral of the cost of improvements the acquirer undertakes.
 - d. A surcharge for the recovery of the cost of improvements the acquirer undertakes.

If the improvements that are required to improve service quality would result in rates that are deemed too high to be absorbed by ratepayers at one time, rate recovery of the improvement costs may be recovered in phases. There may be a one-time treatment of the improvement costs in the initial rate case but a phasing in of the acquisition improvements and associated carrying costs may be allowed over a finite period.

Prior to the Commission implementing the "Policy Regarding Direct Incentives for Acquisitions" or the "Policy Regarding the Acquisition of Viable Systems," the Commission directs Commission Staff to collaborate with the Residential Utility Consumer Office, the Water Utilities Association of Arizona, and the Rural Water Association of Arizona to determine the definitions of "viable" and "non-viable." Further, this group shall evaluate and define "a demonstrated record of acquiring and improving the service provided to the customers of non-viable water systems" and couple those metrics with recommended ROE adders. Commission Staff is to report back to the Commission with their findings and recommendations by September 1, 2016.

**** Make all conforming changes**

THIS AMENDMENT:		
_____ Passed _____	Passed as amended by _____	
_____ Failed	_____ Not Offered	_____ Withdrawn